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THE 1949 STATE BUDGET

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 Minister of Finance USSR

The 1949 USSR budget has been approved for an income of 446 billion rubles and expenditures of 415,400,000,000 rubles. The fact that the income exceeds the expenditures by 30,600,000,000 rubles is all the more noteworthy because the surplus is being gained under conditions of greatly reduced state retail prices of consumers' goods.

As a result of the second reduction of state retail prices 28 February 1948, the people gain at least 48 billion rubles a year, and counting the additional gain from reduced prices in cooperative and kolkhoz trade, this becomes approximately 71 billion rubles a year.

The people's gain from reduction of state retail prices is, however, a loss for the state budget which is estimated at 43,800,000,000 rubles for 10 months of 1949. This loss must be covered, and undoubtedly will be covered with the aid of certain economic measures despite the serious difficulties to be overcome.

New wholesale prices and freight rates were put into effect 1 January 1949 to strengthen the financial self-sufficiency of enterprises, improve financial conditions of the economy, and increase control by the state. As a result of the new wholesale prices, the relationship between price and cost is more correctly established in various types of production, and the accounting of labor, materials and financial expenditures in commodity production is improved.

The new wholesale prices and rates, together with the further reduction in production cost led to sharp reductions of state subsidies from the budget for covering losses of the economic organizations and increased credits in all branches of the economy, thereby increasing the reserves of the state budget. In some branches the tax rates on turnover were reduced or completely abolished. This brought about certain reductions in the amount of this tax yield in the budget income.

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The 1949 state budget net income is 37,500,000,000 rubles, or 27 percent over that of 1948.

The make-up of the income of the 1949 budget is as follows (in billions of rubles):

	1948	1949	1949 in % of 1948
Total revenue	403.5	446.0	109.2
Of which:			
Tax on turnover	247.5	262.2	105.9
Deductions from profits	26.5	34.0	128.3
Income taxes	33.2	36.5	109.9
Local taxes and fees	5.7	6.7	117.9
State loans	23.9	23.1	96.7
Capital from state social insurance	16.2	17.5	108.0

Two thirds of the income of the 1949 budget is made up of receipts from socialist enterprises in the form of deductions on profits and the turnover tax. The especially strong increase in receipts from deductions on profits of enterprises in 1949 over 1948 is explained by the greatly increased profits in the national economy.

The profits of state enterprises and economic organizations will be increased from 39,300,000,000 rubles in 1948 to 49,600,000,000 rubles in 1949. The increase will occur in all branches of the economy, but the greatest increase, 18,700,000,000 rubles, will be in industry. Transport and communications will be allotted an increase of 8,600,000,000 rubles.

In certain enterprises there are discrepancies in the level of cost for the same kind of product often caused by defects in production organization, overconsumption of materials, losses from scrap, and extremely high overhead expenses. There is a discrepancy in cost of manufacture of the Rekord and Rodina receivers at different plants. Cost discrepancies are also noted at different sovkhozes.

Losses from rejects are extremely great in many enterprises. Losses from rejects during the third quarter of 1948 amounted to 4,220,000 rubles at the plants of the Glavkhimmash (Main Administration of Chemical Machine Building) of the Ministry of Machine and Instrument Building.

The Zaporozhetal' Plant of the Ministry of Metallurgical Industry permitted overconsumption of 10,918 tons of coke, 9,595 tons of metal alloys, and 1,905 tons of scrap steel over the plan for the first 6 months of 1948. In many cases, particularly in the machine-building enterprises the level of overhead expenses in production cost is still high.

The 1949 national economic plan specifies increased labor productivity in industry of 14 percent over that of 1948.

Important changes in allocation of profits of the economic organizations have been specified for 1949. The purpose of these changes is to increase the interest of enterprise directors in the results of their activities and to strengthen cost accounting. A greater part of the enterprises profits are left at their disposal for financing of investments and other expenditures specified by their plans, and the size of deductions on profits diverted to the budget is relatively decreased. The following data show the changes in allocation of profits:

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	Sum (millions of rubles)	Amount in %	Sum (millions of rubles)	Amount in %
Entire amount of profits	34,783	100	69,566	100
Of which:				
Deductions on profits				
Diverted to budget	22,315	63.4	32,210	46.3
Increase in internal working capital	4,740	13.6	11,408	16.4
Investments	3,900	11.2	15,389	22.1
Capital repairs	--	--	4,292	6.2

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Despite the decrease in size of deductions on profits, the actual sum and the amount in the income of the state budget are increased as a result of the greatly increased profits in the national economy.

The tax on turnover is being increased in the budget from 247,500,000,000 rubles in 1948 to 262,200,000,000 rubles in 1949, or 5.9 percent. This is due to the enlarged volume of output and the marketing of industrial and agricultural production.

A necessary condition for receipt of the specified amount of the tax on turnover is fulfillment of the plans of output in the given assortment and of the specified quality by every enterprise and organization, and well-timed delivery of the products to the consumer. Receipt of this tax also requires improved work quality of the state and cooperative trade organizations which, with reduced retail prices, must study the increasing consumer demands more closely.

More than a third of the entire budget expenditure, 152,500,000,000 rubles, is being appropriated for the national economy. Expenditures on social and cultural measures have been increased to 119,200,000,000 rubles, 13,600,000,000 rubles over the 1948 amount and 28.7 percent of the entire budget expenditure. Altogether, appropriations for the national economy and social and cultural measures make up two thirds of the state budget.

The expenditures for financing the branches of the national economy in 1949 are shown in the following table (in millions of rubles):

	1948 (fulfillment)	1949
Entire amount	147,483	152,525
Of which:		
Industry	94,081	75,483
Agriculture and timber economy	20,474	32,685
Transport and communications	14,344	14,744
Commerce and supplies	4,028	6,428
Public utilities	4,362	5,951

Appropriations for the national economy are 5 billion rubles over those of 1948. This sum, however, does not reflect the total increase of investments in the national economy because the amount of internal profits is greatly increased in the total sum of expenditures on the national economy in 1949, and the state subsidy is sharply reduced.

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In 1949 37,400,000,000 rubles of enterprise internal capital will be spent on the national economy. With the addition of this sum the investments in the national economy reach 189,900,000,000 rubles and exceed the corresponding 1948 expenditures by 27 billion rubles. Counting the sharp reduction of subsidy from the budget for the branches of the economy in 1949, the increase in investments in the national economy is considerably greater.

As a result of the new wholesale prices and elimination of the system of state subsidies, for the most part, in 1949 and completely in 1950, the relation between the branches of the economy and the budget is altered.

Enterprises and economic organizations will sharply increase their share of investments in capital construction and in their own working capital, since their profits will be larger. On the other hand the budget of the USSR will increase, both in absolute and relative value, the financing of expenses on industrial development.

State subsidies will be reduced; the appropriation in 1948 was 5.3 times larger than that of the present year. The largest reduction will be made in industry and transportation. However, in 1949, the state will maintain subsidies for agriculture, for housing, public utilities and for some industrial branches. The problem at present consists in preparing conditions for completely discontinuing state subsidies. The first figures for 1949 and the large increase in profits based on the reduction of cost indicate that this problem can be solved within a short time.

In 1949 more than 50 percent of the money appropriated for the national economy will be spent on capital construction. Capital investments will increase from 66.2 billion rubles in 1948 to 105.5 billion rubles in 1949, and, as shown in the following table the contribution of enterprises in construction expenses will be larger.

Financing of Capital Investments

(in million rubles)

	<u>1948</u>			<u>Approved for 1949</u>		
	<u>From Enterprises' Own Funds</u>	<u>From Budget</u>	<u>Total</u>	<u>From Enterprises' Own Funds</u>	<u>From Budget</u>	<u>Total</u>
Total	8,994	57,158	66,152	25,696	79,827	105,533
Industry	6,640	39,749	46,389	19,370	52,841	72,231
Agriculture	110	4,208	4,318	249	8,960	9,209
Transport and Communications	1,802	7,193	8,995	4,508	9,034	13,542
Trade and Supplies	192	649	841	349	637	986
Other branches	250	5,359	5,609	1,200	8,365	9,565

While total investments will increase 59.4 percent in comparison with the previous year, the contribution of enterprises' own funds will increase 185.5 percent, which certainly will lead to strengthening of the control over the fulfillment of capital works and reductions of construction cost by managers of enterprises and economic organizations.

However, serious deficiencies are still observed in capital construction. Material and financial resources are still inadequately concentrated in the main enterprises and, as a result, many constructions which were to be completed in 1948 were not ready in time. There are still numerous cases where

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insufficient concentration of resources results in a fulfillment of the plan for the main types of construction but in which the achievement is behind the fulfillment of the plan for the whole ministry or organization. This happened in particular in constructions of the Ministry of Electric Power Plants in 1948.

Unsatisfactory fulfillment of the plan for operating new projects very often resulted from the lack of manpower. Workers were too often used for subsidiary operations or in secondary enterprises. During the current year it will be necessary to increase concentration of manpower, equipment, and funds at main projects.

There are still cases when the cost of construction increases instead of decreasing. Exaggerated expenses on materials and equipment are in many cases the cause of this situation. Reserves of material and equipment surpass very often the adopted standards. Some constructors acquire more equipment than they actually need, or prefer to have new equipment instead of using that they already have at their disposal. For instance, at the metallurgy plant in Petrovskiy, 17.3 million rubles worth of rail-mill equipment was imported, whereas 2 million rubles worth of that equipment was provided to be put into operation in 1948. In the same plant, for projects to be carried out in 1949-1950, 7 million rubles worth of equipment have been already purchased in 1948.

Some construction organizations are not rationally using manpower, and tolerate overexpenditure of the wage fund, which brings about increase in the cost of construction. Thus, last year, construction organizations of the Ministry of Construction of Heavy Industry enterprises permitted an overexpenditure of over 2 million rubles of the wage fund. This overexpenditure occurred mainly because of a surplus of manpower and improper use of qualified workers. There are also instances where, instead of striving for economy, ministries and construction organization permit excessive estimates.

In 1949 ministries and construction organizations must ensure a 4.5 percent reduction in the cost of construction. This considerable task requires a much better organization and a larger mechanization of labor-consuming processes than those existing and implies an intensified concentration of materials, equipment, and capital and the strictest economy in spending. Long-term credit banks, which channel into construction the multibillion-ruble state appropriations must supervise all these problems.

During the present year the budget will appropriate 10.1 billion rubles to increase working capital. Moreover, economic organizations will spend for this purpose 13.5 billion rubles from their profits and other sources. As in expenditures on capital construction, the economic organizations' share in covering their own increased working capital requirements will be considerably increased in 1949 and be greater than before the war. Budget appropriations for covering increased working capital requirements amounted to 49.3 percent of the necessary amount in 1940, 68.6 percent in 1947, 62.3 percent for 1948, and will be 42.9 percent this year.

The increased norms of internal working capital for the individual branches are specified in the following amounts (in millions of rubles):

	<u>Total Amount</u>	<u>Budget Appropriation</u>
Industry	19,546.3	8,460.3
Agriculture and timber economy	1,531.2	1,195.3
Transport and communications	1,317.7	316.0
Commerce and supplies	840.1	6.0
Public utilities	111.5	3.8
Other branches	261.5	137.2
Total:	23,608.7	10,119.5

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There are still serious defects in utilization of working capital in industry and other branches of the national economy.

Reserves of stock values are extremely great in the enterprises and exceed the specified norms. This causes deceleration of capital turnover and serious financial difficulties. Although less than the corresponding residues of 1 January 1947 and 1948, the industry residue of material values of 1 October 1948 still continued to be large and exceeded the residue of 1 January 1941 14 percent. The reserves of materials and finished products are especially large.

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The turnover of capital is much slower than specified by the plan in some branches of industry. In the enterprises of the Ministry of Heavy Machine Building the turnover of capital on industrial stock during 9 months of 1948 amounted to 93 days when the plan had specified 68.5 days. The plan specified 16.2 days for capital turnover on finished products, and it actually amounted to 32.5 days. In the enterprises of regional level of the Ministry of Local Industry of the RSFSR the turnover of capital was 22.8 days slower than the planned turnover. In enterprises of republic level of this same ministry the residue of industrial stock over and above the plan exceeded the norm 16 percent on 1 October 1948, and the residue of finished products exceeded 52 percent.

The formation of stock over and above the plan is a result of irregular output by many enterprises, nonconformity to the demands of the consumers as to assortment and quality of production, and insufficient responsibility on the part of economic managers as to well-timed marketing and shipping of products. Many suppliers delay sending bills for shipped products and poorly use the sanctions established by law for unsatisfactory payers.

The deceleration of turnover of capital in state and cooperative trade and the accumulation of large residues of commodities is often due to incorrect delivery of products without considering the market, and to unsatisfactory commodity assortment and quality, especially in production of local industry and trade cooperation.

The 1949 state budget specifies acceleration of turnover of working capital in the national economy 3 percent over the 1948 norm.

The collectives of the plants and factories of Moscow and the Moscow area have obligated themselves to accelerate turnover of capital and free 1,300 million rubles in Moscow industry in 1949.

The Plant imeni Stalin (director, Likhachev) has promised to accelerate the turnover by 9 days and free 30 million rubles working capital. The capital is being freed by the following means at this plant: acceleration of the production cycle freeing 14 million rubles; reduction of the reserves of material values, 13 million rubles, and acceleration of the marketing of finished products, 3 million rubles.

A mass workers' movement for saving materials, fuel, and electric power has been started at the Kolonna Locomotive Plant (director, Yakovlev).

Much work is required of the banking and finance agencies in the task of accelerating turnover of capital. It is necessary to raise the level of economic work of finance agencies and increase the quality of all finance and credit operations.

The state has specified 32,700,000,000 rubles for further development of agriculture from the total appropriation for the national economy of 152,500,000,000 rubles. This agricultural appropriation is 59.5 percent more than that of 1946, and constitutes a considerably greater increase

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than those for the other branches of the national economy. A large part of this amount will be put into investments. Investments in 1949 will be more than twice as large as those of 1948. Investments for enlarging the tractor, automobile, and machinery pools are being increased.

In 1948, many machine and tractor stations did not fulfill their contract obligations to the kolkhozes in respect to fixed times and quality of tractor work, insufficiently utilized reserves of increasing the productivity of tractors, and permitted overconsumption of material and financial resources. The finance agencies and, above all, the workers of the Agricultural Bank must strengthen control in utilization of appropriations and increase the quality of finance.

In 1949, over 800 million rubles will be appropriated from the budget alone for financing measures of the plan of protective forestation, introduction of grass crop rotation, and building of reservoirs and tanks.

State expenditures on social and cultural measures are being considerably increased this year. In 1940, 40,900,000,000 rubles of the budget were spent on such measures. 80 billion rubles in 1946, 105,600,000,000 rubles in 1948, and 119,200,000,000 rubles will be spent in 1949.

The budget appropriations for the principal groups of social and cultural measures are shown in the following data (in millions of rubles):

	1943 (fulfilled)	1949
Total	103,609	119,214
Education	53,094	60,779
Sanitation	19,644	21,600
Physical culture	252	274
Social security	18,422	21,420
State assistance to unmarried mothers and mothers with many children	2,500	3,358
State social insurance	9,697	11,770

The increased appropriations in education are specified for public education in connection with increasing the number of pupils of elementary and secondary schools to 33,926,000, which would be 266,000 more than the number of pupils in 1940. Appropriations for financing scientific research institutes and measures amount to 6,600,000,000 rubles. In addition to this amount, 2,500,000,000 rubles of industrial capital is specified for this purpose.

Expenditures of 79,100,000,000 rubles have been approved for the armed forces in 1949, and 13,700,000,000 rubles will be spent on maintenance of administrative agencies. The expenditures for the armed forces and administrative agencies are the same as last year if it is considered that certain increases in these expenditures are due to an increase in wholesale prices and railroad rates.

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